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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Economic Situation in South Vietnam

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
May 1972

INTELLIGENCE MEMORANDUM

THE ECONOMIC SITUATION IN SOUTH VIETNAM

Summary

1. The continuing enemy offensive has disrupted economic activity throughout South Vietnam. More than 700,000 people, of whom about three-fourths are being cared for by the government and the remainder by friends or relatives, have been displaced from their homes.

2. The movement of refugees and the economic slowdown in almost all parts of the country have meant reduced output in both agriculture and industry. Part of the 1971/72 rice crop has gone unharvested, and less acreage will be planted for the new crop. Most manufacturing firms are operating at reduced levels.

3. Demand for all but essential goods has fallen sharply countrywide. In Saigon, retail prices on 22 May were only 1.2% above the pre-offensive level. Supplies of food and nonfood items reportedly are sufficient in most areas; but, although rice stocks are adequate to meet current needs, an upsurge in the offensive could result in severe shortages in the rice-deficit areas. Imported rice is on the way but will not arrive in significant quantities until mid-June.

4. Rumors of a government takeover of deposits triggered a week-long run on Saigon banks. These same rumors temporarily sent black market dollar and gold prices higher.

5. The government budget deficit will almost certainly skyrocket as a result of the offensive. To counteract the decline in revenues, the government is levying higher taxes on a variety of goods and services and issuing special war bonds.

Note: This memorandum was prepared by the Office of Economic Research.

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6. A map showing population and administrative divisions as well as charts on foreign exchange reserves, money supply and prices, import licensing, gold and currency prices, and the government budget (Figures 1-5) follow the text.

Discussion

The Refugee Problem

7. The most important disruption to the economy as a result of the offensive has been the large-scale movement of refugees away from battle areas (see the table). Although many – about one-fourth – are staying with families or friends or in other ways fending for themselves, the number of refugees in government facilities is still increasing. As a result, relief resources (both financial and physical) are being severely taxed.

8. Pressures and strains on local stocks and transport facilities certainly will occur from time to time, but the government's task may be eased somewhat by the fact that most of the refugees under its care are concentrated in just a few cities where stocks apparently are adequate. Of the roughly 530,000 refugees receiving government help, about 70% are in Da Nang (Quang Nam Province), Hue (Thua Thien), Nha Trang (Khanh Hoa), Pleiku (Pleiku), and Phu Cuong (Binh Duong) as shown in the table. The major problem presently is Da Nang, where most of the refugees from Military Region (MR) 1 have relocated, more than doubling its normal population of 400,000. Even there, however, after initial confusion, some 260,000 refugees now are receiving official assistance, and most of the rest are living with friends or relatives. Food, housing, and sanitation facilities – particularly in the larger camps – are generally adequate. In addition, there are plans to alleviate some of the pressure on Da Nang by moving up to 200,000 refugees south to camps in MR 3. To date, the performance of the government in refugee relief has been immeasurably better than during the 1968 Tet Offensive.

Production Losses

9. As the offensive has continued to uproot tens of thousands of people and disrupt the normal pattern of life in all parts of the country, its impact on both agricultural and industrial output has become increasingly serious. Production of South Vietnam's two major crops – rice and rubber – has already been adversely affected. Other crops that are either being harvested or planted at this time of year will also be affected – notably tobacco and sugarcane. Forestry operations have suffered,

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South Vietnam: Refugee Movements as of 20 May

	Leaving Homes in Province		Arrivals at Government Refugee Centers (Thousand)
	Thousand	Percent of Province Population	
Military Region 1	503.9	16	353.0
Quang Tri	250.0	78	-
Thua Thien	200.0	26	31.8
Quang Nam	8.0	1	277.5
Quang Tin	16.1	4	13.9
Quang Ngai	29.8	4	29.8
Military Region 2	115.4	4	87.8
Kontum	30.0	25	9.0
Pleiku	40.0	18	27.0
Binh Dinh	36.0	4	8.0
Phu Bon	3.7	6	-
Phu Yen	5.7	2	4.0
Darlac	-	-	2.0
Khanh Hoa	-	-	32.4
Ninh Thuan	-	-	5.4
Military Region 3	68.4	1	59.8
Binh Long	30.0	38	N.A.
Phuoc Long	7.0	16	4.5
Binh Duong	4.2	2	20.0
Tay Ninh	15.5	4	10.7
Hua Nghia	7.6	4	7.6
Gia Dinh	-	-	9.5
Bien Hoa	-	-	3.4
Phuoc Tuy	4.1	2	4.1
Military Region 4	30.9	Negl.	26.9
Chau Doc	1.0	Negl.	-
Kien Phong	7.1	2	6.1
Kien Tuong	5.5	11	5.5
Kien Giang	1.0	Negl.	1.0
Vinh Binh	2.0	Negl.	-
Chuong Thien	13.4	5	13.4
Ba Xuyen	0.9	Negl.	0.9
Total	718.6	4	527.5

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particularly in Binh Long Province in MR 3, which provided about 10% of log production in 1971. Fishing activity will be curtailed as well because of the reimposition of curfews throughout the country. The slowdown in forestry and fishing will likewise curb the rapid growth of exports that began in the first quarter of this year.

10. About 3% of the 1971/72 rice crop already has been lost because the spring harvest was halted in Quang Tri, Thua Thien, and Binh Dinh Provinces. Nevertheless, production in the 1971/72 crop year (which ends on 31 May) will still reach a record level because of large increases in output in some of the major rice-producing provinces in the Delta. The effect of the offensive on the 1972/73 crop, however, will be more severe. The major rice planting season, which runs from April through June, has been disrupted in many parts of the country. Even if the offensive ended this month, the government estimates that 1972/73 rice production could be down as much as 5% from the level of this crop year.

11. The recovery of rubber production (and exports), which began in 1970, has come to a halt with the shutdown of plantations in Binh Long and Binh Duong Provinces in MR 3. These plantations, which account for about 60% of total rubber output, along with processing facilities near An Loc, have been heavily damaged by the fighting; and several of the French management personnel are missing and presumed captured. Nevertheless, according to a spokesman for the planters' association, the four principal French companies do not plan to close permanently, but will wait out the offensive as they have several times in the past.

12. Although Vietnam's industry, which is concentrated in the Saigon area, has not been directly affected by the movement of refugees, it is feeling indirectly the impact of the offensive. A drop in demand for all but necessities – as consumers await the outcome of the fighting – has resulted in a slowing of economic activity of all kinds both in Saigon and the provinces since the offensive began on 30 March. As a result, many small firms in almost all branches of manufacturing reportedly have closed, and large firms are working only part time. The large textile manufacturers, for example, are working only one shift instead of the usual three, and large chemical firms are operating at half capacity. If the recession continues, unemployment could become a significant problem in the Saigon area, as it already is in such places as Da Nang and Cam Ranh, where the continuing US withdrawal has caused the layoff of several thousand workers in recent months.

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Commodity Stocks and Markets

13. Market conditions vary substantially throughout the country, depending on the degree of military activity and the number of refugees. In Da Nang and other refugee-laden towns, prices rose considerably during April but reportedly have stabilized since the offensive subsided. Although most food supplies are adequate in Da Nang, a further influx of refugees – or the necessity of feeding the present population past June – will require a major resupply effort.

14. Saigon, on the other hand, has been little affected as yet by the flow of refugees, and on 22 May prices were only 1.2% higher than the pre-offensive level.⁽¹⁾ Although some hoarding has occurred, especially following the enactment of martial law and a longer curfew on 11 May, consumers apparently prefer to hold cash. Many businessmen, who have been caught with high inventories financed at high interest rates, are hard pressed for cash. The government had announced measures to ease credit and is providing special rediscount privileges for manufacturers' inventories. As a result of the credit-inventory squeeze and the deepening recession, orders for all but essential imported commodities have declined sharply during the last few weeks.

15. Rice stocks currently are adequate throughout the food-deficit areas of the country, but a major upsurge in the fighting could quickly upset this through stock losses, population shifts, or transportation problems. Government stocks in Saigon have been reduced to a very low level in order to meet requirements for the military and those of civilians in war zones or major refugee areas. Although private merchants were able to supply sizable quantities of rice to MR 1 in April directly from the Delta, government stocks have been the major source of supply for MR 2 and parts of MR 3. The government has been unable to rebuild its stocks because Delta farmers – who still have considerable rice on hand – have been willing to sell only limited amounts at the prevailing price.

16. To help meet 1972 rice requirements, US shipments en route to Indonesia have been diverted to Vietnam and additional imports have been ordered. These supplies will not arrive in significant quantities, however, until mid-June. In Saigon and the rice-deficit areas, therefore, both government and commercial stocks will depend for the next several weeks almost solely on deliveries from the Delta. Merchants have promised the government more rice, and the government, in turn, agreed to implement for the rice dealers the war-risk insurance law that was passed but not applied following the 1968 Tet Offensive.

1. Since the beginning of the year the USAID retail price index has risen 7.3%.

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Bank and Currency Transactions

17. Somewhat surprisingly, commercial bank deposits continued to increase during the first month of the offensive. The enactment of martial law and various emergency measures on 11 May, however, triggered a run on banks that did not slacken until 16 May. Despite assurances to the contrary, rumor spread that the government was going to block withdrawals of bank deposits or force depositors to buy war bonds.

18. These same rumors sent black market dollar and gold prices higher as people sought to protect their assets. The price of dollars rose to 429 piasters per dollar on 15 May compared with the official rate of 420,⁽²⁾ but then fell back to 422 piasters per dollar on 22 May. In a similar pattern, the price of gold leaf rose and then fell to 654 piasters per dollar. Despite these fluctuations, black market rates remained below the pre-offensive level. During April, black market rates had declined somewhat as businessmen reportedly converted gold and dollars into piasters to pay urgent bills or duties on goods piling up in customs.

Government Budget

19. The budget deficit almost certainly will skyrocket this year as a result of the offensive. Depending on the length of the offensive, government expenditures are expected to increase 10%-20% as a result of refugee and resettlement costs, death and disability benefits, infrastructure repairs, and -- eventually -- reconstruction costs. At the same time, tax receipts will decline because of the lower level of economic activity. Tax collections by local governments already have been curtailed because of insecurity in many areas of MRs 1, 2, and 3.

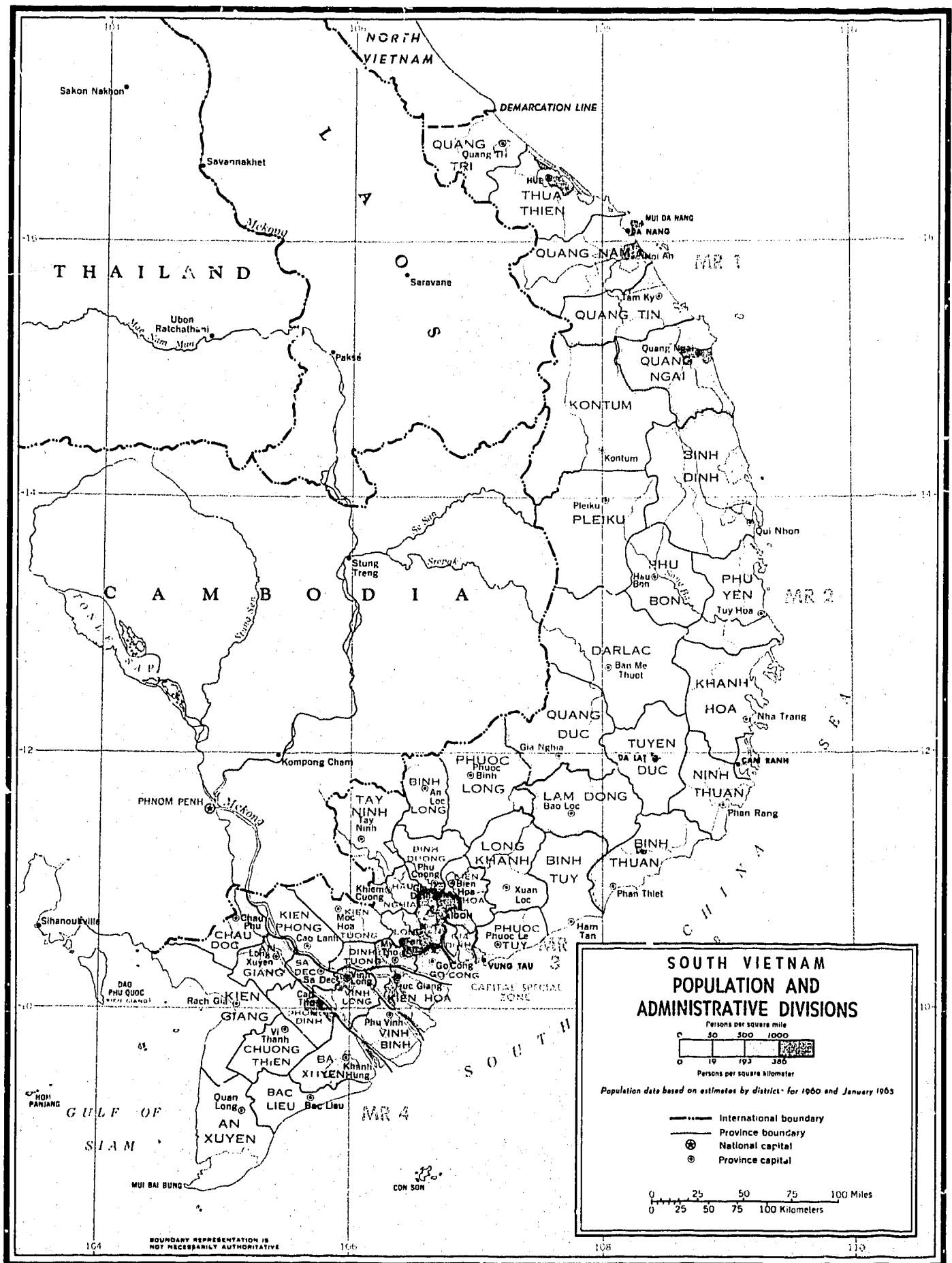
20. To counteract the decline in revenues the government has drawn up a package of tax measures affecting a wide variety of luxury-type goods and services, including beer, cigarettes, restaurant meals, and theater tickets. The proceeds from these measures, which were enacted by presidential decree on 22 May, will be earmarked for refugee relief. In addition, special war bonds will be issued bearing a lower than normal interest rate (20% per year versus 22% for regular treasury bonds). Further revenue measures are planned if Thieu succeeds in getting National Assembly approval for emergency decree powers. These include increased taxes on motor vehicle use and the enactment of laws currently before the legislature on income and property taxes.

2. On 28 April the piaster was devalued for the fourth time this year -- from 410 to 420 piasters per dollar. This rate applies to all foreign transactions except US-financed imports (which come in at 285) and transactions for overseas students and official business of the Vietnamese Government (still at 118 piasters per dollar).

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21. The impact of new tax measures and increased government spending on retail prices is difficult to gauge. If the offensive and recession continue, it is quite likely that businessmen will not pass on the tax increases to consumers. Over the longer run, the new tax measures probably will not generate enough revenue to offset the increase in spending. Nevertheless, if the economy remains in a slump for many months, as it did following the 1968 enemy offensives, then even the additional deficit spending may not boost the price level significantly.

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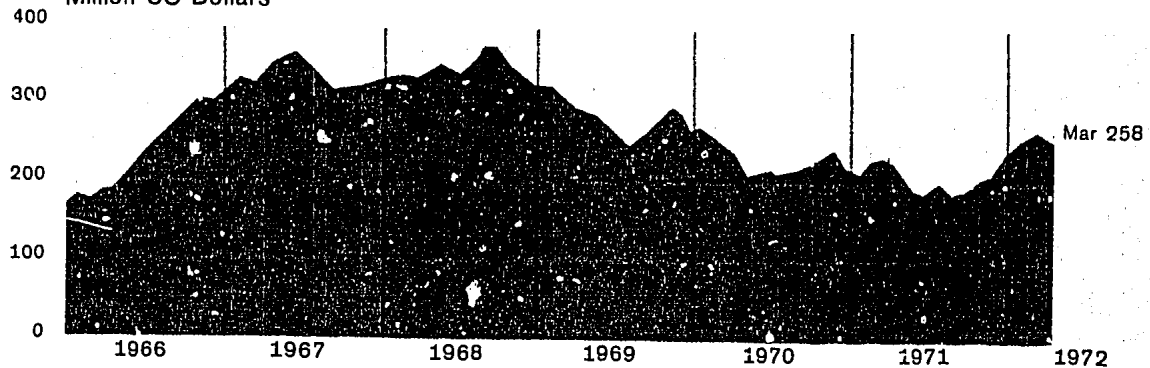
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SOUTH VIETNAM

Figure 1

Foreign Exchange Reserves*

Million US Dollars



*Excluding holdings of commercial banks

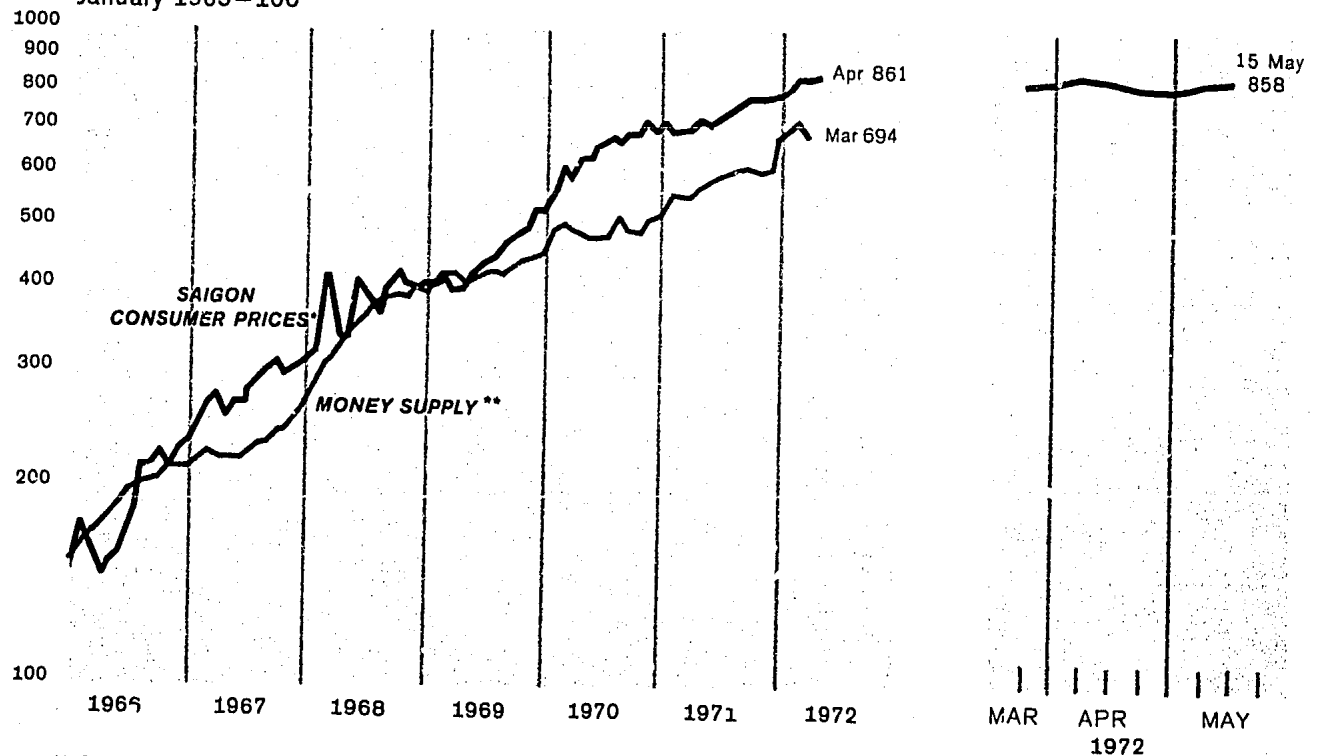
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Figure 2

Indexes of Money Supply and Saigon Consumer Prices

January 1965=100



*USAID monthly average retail price index for Saigon

**Data are for end of month

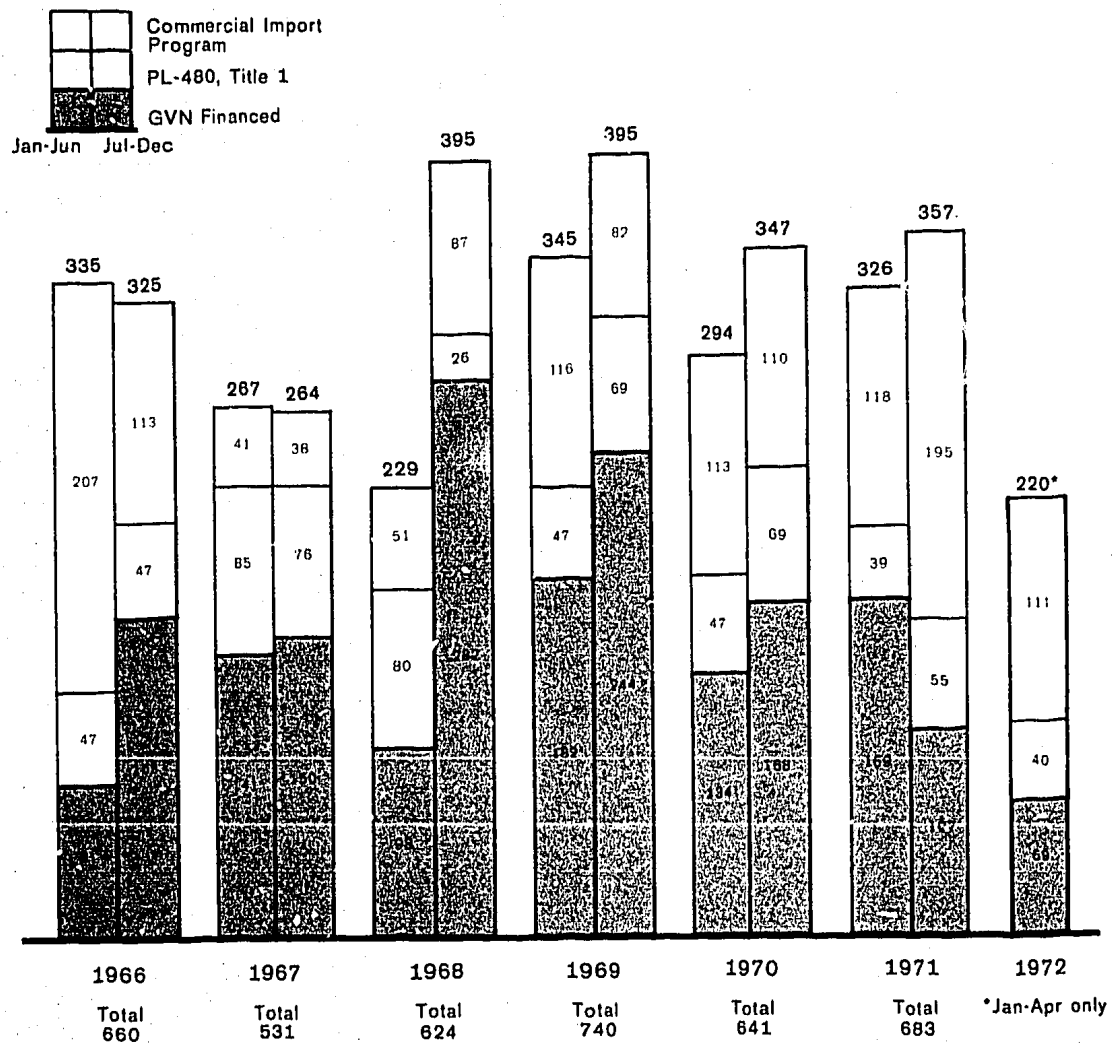
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Figure 3

Import Licensing

Million US Dollars

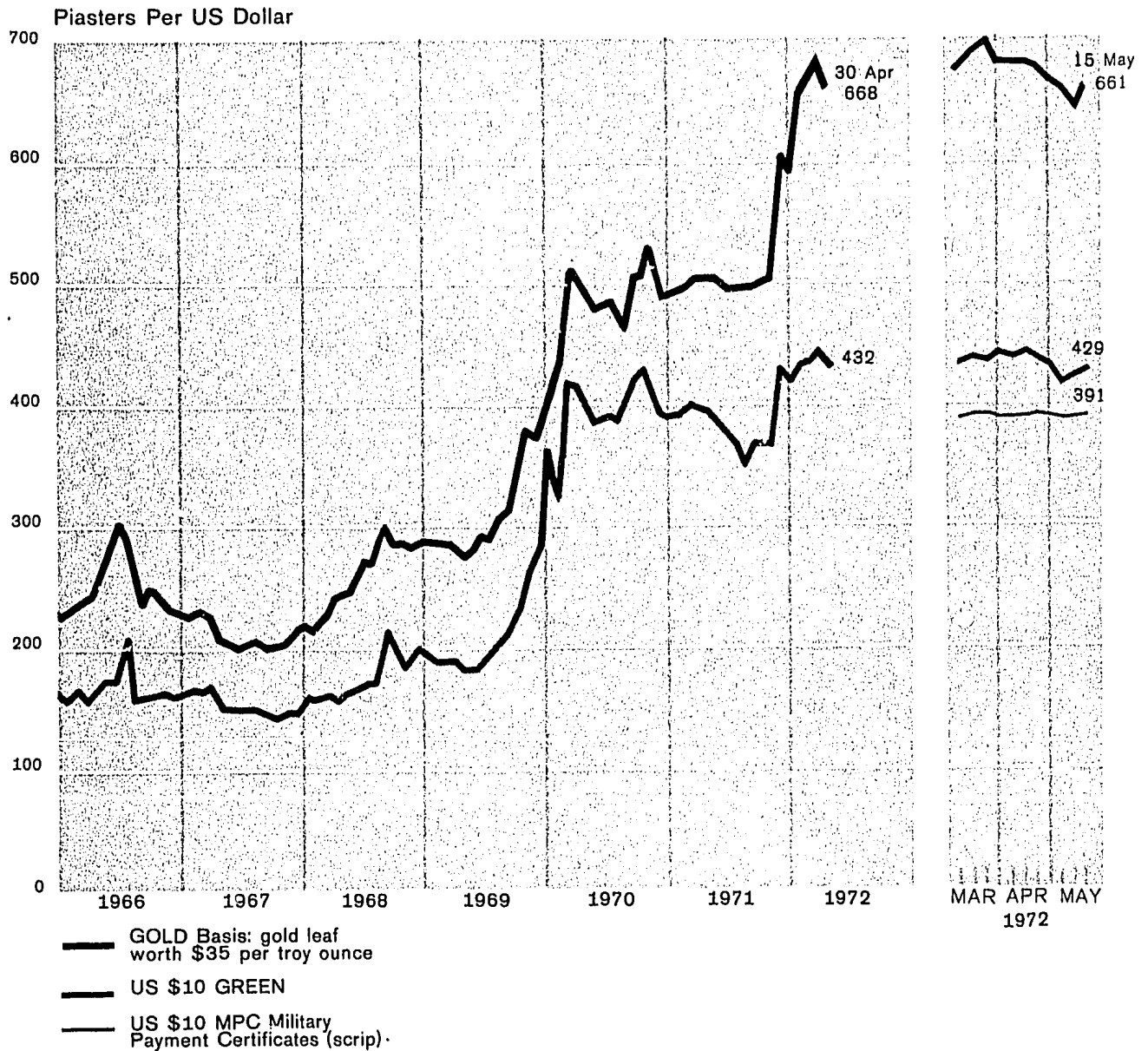


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SAIGON

Free Market Gold and Currency Prices

Figure 4



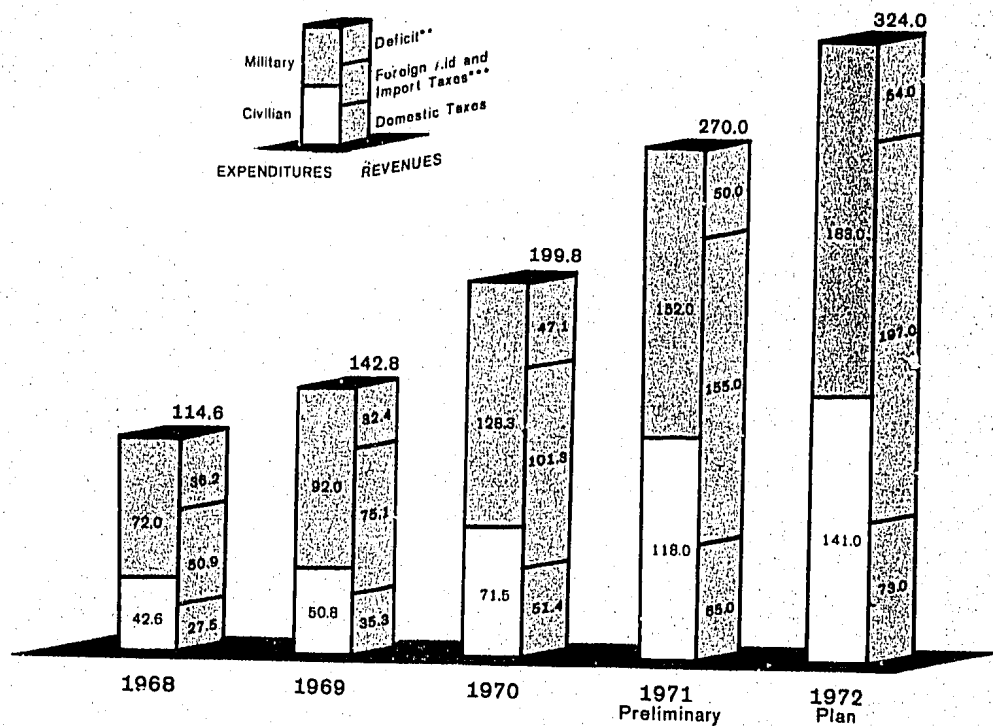
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SOUTH VIETNAM

Government Budget*

Billion Piasters

Figure 5



*Data include extrabudgetary revenues and expenditures.
 **Residual. Financed primarily by borrowing from the National Bank.
 ***Includes customs duties and other import taxes, counterpart funds generated by US-financed import programs, and profits from foreign exchange transactions. A major result of the November 1971 reforms was to make explicit a greater share of US aid to the budget that earlier took the form of high customs duties on aid-financed imports.

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